

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

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FISCAL IMPACT STATEMENT

LS 6678
BILL NUMBER: SB 254

DATE PREPARED: Dec 15, 2001
BILL AMENDED:

SUBJECT: Income Tax Credit for Inventory Taxes.

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FUNDS AFFECTED: ☒ **GENERAL**
☒ **DEDICATED**
FEDERAL

IMPACT: State

STATE IMPACT	FY 2002	FY 2003	FY 2004
State Revenues		(145,400,000)	(290,000,000)
State Expenditures			
Net Increase (Decrease)		(145,400,000)	(290,000,000)

Summary of Legislation: This bill provides a credit against a taxpayer's state tax liability for property taxes paid on inventory. It provides that the credit is initially equal to 33% of property taxes paid on inventory, and increases the credit percentage over three years until the credit may be claimed for 100% of property taxes paid on inventory.

Effective Date: January 1, 2002 (retroactive).

Explanation of State Expenditures: The Department of State Revenue will incur additional administrative expenses associated with the revision of tax forms, instructions, computer programs, and compliance. However, the Department should be able to absorb these costs given its current resources.

Explanation of State Revenues: *Estimation Issues:* In estimating the impact of this provision, special attention was given to the impending real property reassessment. The final rules on real property assessment and personal property assessment will have a direct impact on property tax rates and the amount of the property tax levy that will be attributed to inventory. The real property reassessment will shift some of the property tax burden from personal property owners to real property owners, while the new personal property assessment rule will moderate that shift to some extent. The total increase in assessed value for 2002 pay 2003 is estimated at about 61.1% taking both the new real property and personal property rules into account.

It was assumed that the next reassessment will apply to property assessed in 2002 with taxes first paid in 2003 as mandated in the latest order from the Indiana Tax Court.

Data: According to the State Tax Board's Property Tax Analysis for various years, the net property tax on inventory equaled \$407 M in CY 2000 and \$428 M in CY 2001. The 2000 pay 2001 inventory AV was \$4.70 B and has grown at an average annual rate of 2.7% over the last five years. The statewide net average property tax rate was \$8.6955 per \$100 AV in CY 2000 and \$8.8151 per \$100 AV in CY 2001.

Fiscal Impact: Future inventory assessed values were projected based on historical data. Future average net property tax rates were estimated based on historical data and on the estimated changes to the total tax base due to the newly adopted real property and personal property assessment regulations. Based on estimates of future total tax levies and total assessed values, it is estimated that the statewide average net tax rate will grow at a rate of about 1.4% per year in non-reassessment years. An estimate of the future net property tax on inventory was computed by multiplying the estimated net assessed value of inventory by the estimated net average tax rates.

Under current law, the state will allow a credit against state income tax for the property tax paid on the first \$37,500 AV of a taxpayer's business personal property in the state. The credit will be first available based on property tax paid in CY 2003 and can be claimed beginning in 2004 when taxpayers file their 2003 income tax returns. This bill requires that the inventory credit amount is to be reduced by the amount of existing Personal Property Tax Replacement Credit (PPTRC). While there is no mechanism to segregate inventory from depreciable property as they apply to the \$37,500 AV credit, there are some taxpayers who have total assessments, including inventory, that are at or under \$37,500. For these taxpayers it is clear that the PPTRC would reduce the state's liability for the inventory credit in this bill. The amount of the PPTRC identified as being attributed to inventory only is estimated at \$3 M to \$6 M annually under this bill.

The applied percentages of tax credits under this proposal and corresponding tax years are identified below along with the estimated revenue loss for the respective fiscal years.

Property Tax Year	% Credit	Estimated Credit	State Fiscal Year of Impact
2002	33%	\$ 145.4 M	FY 2003
2003	67%	\$ 290.0 M	FY 2004
2004	100%	\$ 451.2 M	FY 2005
2005	100%	\$ 470.3 M	FY 2006
2006	100%	\$490.2 M	FY 2007

Based on the estimated growth rates of inventory assessed value and net property tax rates, the cost of the credit is estimated to grow at about 4% to 5% per year.

The credit may be taken against a taxpayer's Corporate Gross Income Tax, Adjusted Gross Income Tax, Supplemental Net Income Tax, Insurance Premium Tax, or Financial Institutions Tax liability. If the amount of the credit exceeds the taxpayer's liability, the excess credit may be carried forward in subsequent years. A taxpayer is not entitled to a carryback or a refund of any unused credit. If a pass through entity does not

have income tax liability, the credit may be taken by shareholders or partners in proportion to their distributive income from the pass through entity.

Revenue from the taxes listed above is deposited in both the General Fund and the Property Tax Replacement Fund.

Explanation of Local Expenditures:

Explanation of Local Revenues: This bill would not affect local revenues.

State Agencies Affected: Department of State Revenue, State Tax Board.

Local Agencies Affected:

Information Sources: Property Tax Analysis, various years, State Board of Tax Commissioners; Local Government Database.